

American

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*EPF303 09/22/2004

Secretary Powell: U.S. Pursuing Diplomatic Course on Iranian Nuclear Issue

(Calls IAEA's November meeting a key event)

By Judy Aita, Washington File United Nations Correspondent

United Nations -- The United States will continue to work in concert with the International Atomic Energy Agency (IAEA), the European Union (EU), and other members of the international community to resolve the issue of Iran's nuclear program, Secretary of State Colin Powell said September 22.

Speaking with journalists while attending the U.N. General Assembly session, Powell said that the United States has no plan at the present to deal with Iran independently. The issue has been a subject of bilateral discussions that top U.S. officials have been holding with other international officials attending the U.N. session.

"We have a firm policy with respect to Iran that we are following. We're working with the IAEA, we're working with the European Union, with the EU secretary general, and we're working with like-minded nations who believe it's not in the interest of the region for Iran to have nuclear weapons," the secretary of state said.

In mid-September, the IAEA Board of Governors called on Iran to suspend all activities related to uranium enrichment, a potential step to producing nuclear weapons, and said it will decide at its November meeting what, or if, further steps are required. One option is referring the matter to the U.N. Security Council, which has the authority to impose sanctions on Iran for not complying with its Nuclear Non-Proliferation Treaty (NPT) obligations.

In its resolution, the IAEA board said that it was making steady progress towards understanding Iran's nuclear programs but said it is seriously concerned that Iran has not heeded repeated calls to suspend all enrichment-related and reprocessing activities.

"There's a clear understanding now that Iran must satisfy the concerns that have been expressed by the international community by the time of the November meeting," Powell said.

"If it doesn't do that by the time of the November IAEA meeting, I think there will be every reason at that point to send the matter on to the Security Council," the secretary said.

"So we're talking about diplomacy and political efforts to stop this movement on the part of the Iranians toward nuclear weapons and we're not talking about strikes. But every option . . . of course, remains on the table," Powell said.

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Pakistan Working to Stop Terrorists from Disrupting Afghan Elections

(President Bush, President Musharraf discuss terrorism, Afghan elections)

By Judy Aita, Washington File United Nations Correspondent

United Nations -- Pakistan will do all it can to prevent terrorists from using its territory to disrupt the Afghan presidential election October 9, Pakistani President Pervez Musharraf said September 22.

In his address to the 59th General Assembly session as well as in talks with President George Bush, Secretary of State Colin Powell, and Afghan President Hamid Karzai, Musharraf discussed the importance of the Afghan elections as well the overall fight against terrorism.

"What we want to do is create a safe environment inside Afghanistan for the upcoming elections on the 9th of October and that was a principle point of discussion with President Musharraf," Powell told journalists at a press conference September 22.

The U.S. leaders expressed appreciation and support for Musharraf's efforts in rooting out terrorist sanctuaries in remote Pakistani provinces along the Afghan border, Powell said.

Powell said that the United States "encouraged President Musharraf to continue to go after al-Qaida elements that may be operating in the border area, as well as and perhaps even more importantly, Taliban elements that might be operating in the tribal areas."

"We all would like to find Osama bin Laden tomorrow," Powell added. "But he is pretty good at remaining hidden. And he is, I think to some extent, a problem, but is quite isolated in his ability to move around. Nevertheless he is a danger."

"President Musharraf is fully aware of our desire to see him brought to justice," the secretary said.

Pakistani military and other security forces have been actively trying to root out extremists -- Taliban, al-Qaida, and Uzbek forces along with the al-Qaida leader Usama bin Laden -- in the provinces of North Wazuristan and South Wazuristan. It is the first major offensive in that tough, remote region in over 100 years. Using a combination of military, civilian agents, and school building and road construction projects, the government hopes not only to eliminate the terrorists but also bring that part of Pakistan into the society, said a senior U.S. official, speaking on the condition of anonymity.

President Bush was particularly interested in that long-term commitment to root out terrorism and the two leaders discussed it at length during their one-hour meeting, said the senior official who attended the meeting.

"It is President Musharraf's assessment that they're keeping these terrorist elements on their back heel and taking the fight right to their headquarters," the U.S. official said.

In the past two months Pakistani forces have suffered between 190 and 200 casualties battling terrorists, but have taken out some important al Qaida extremist elements, the senior U.S. official said. President Bush expressed his appreciation for the efforts and condolences for the losses.

Bush and Musharraf also discussed the Pakistani president's efforts to work with other secular Muslim states such as Malaysia and Turkey to have enlightened scholars interpret Islam, the U.S. official said.

Musharraf explained that because Islam is a religion that should be timeless, it should be adapted to the times. The problem is that many of the more extreme mullahs are trying to turn the clock back two centuries, the official said.

In his General Assembly address, Musharraf also discussed the two-pronged strategy of fighting military and ideological battles against extremists.

The plan, he said, "involves on the one hand, internal socio-economic reform in the Muslim world and, on the other active support from the major powers to ensure political justice and socio-economic revival for all Islamic peoples."

"The industrialized world must support the endeavor for an Islamic renaissance especially through adequate financial and technical assistance and larger trade opportunities," he said.

"For many of us, the terrorist threat is close and personal," the Pakistani leader told the General Assembly. And while global cooperation against the terrorists has been successful

in many aspects, "what we are doing is insufficient to win the ultimate war against them," he added.

"The immediate anti-terrorist response has to be accompanied by a clear, long-term strategy striking at the root of the problem if we are to ensure final success against this scourge," Musharraf said.

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Text: Terrorist Financing Increasingly Cash-Based, U.S. Official Says

(Counterfeiting operation in North Korea under investigation, Levey adds)

Terrorist networks are increasingly turning to cash smuggling to finance their activities, a top U.S. Treasury official says.

In September 22 testimony before a panel of the House of Representatives, Treasury Under Secretary Stuart Levey said that greater international vigilance of banks and other financial service providers has driven terrorist groups to seek other means of moving money across international borders.

"As the formal and informal financial sectors become increasingly inhospitable to financiers of terrorism, we have witnessed an increasing reliance by al-Qaida and terrorist groups on cash couriers. The movement of money via cash couriers is now one of the principle methods that terrorists use to move funds," Levey said.

The United States is working closely with the Paris-based Financial Action Task Force (FATF) and with individual governments around the world to formulate guidance for identifying and interdicting the use of cash couriers in financing terrorism, Levey said. The 33-member FATF is the lead international organization in the campaign against money laundering.

The Treasury Department has also proposed new guidance for U.S. customs and border security officials to assist them in targeting couriers that may be transporting cash to terrorist networks, Levey said.

Another emerging challenge in the campaign against terrorist financing is the counterfeiting of U.S. banknotes abroad, Levey indicated.

He told legislators that the Secret Service, an arm of the U.S. Department of Homeland Security (DHS), is investigating

counterfeit bills coming out of North Korea and "produced by means of complex and expensive printing methods."

The sophisticated techniques used to produce the counterfeits are "evidence of a well-funded, ongoing criminal enterprise, with a scientific and technical component," Levey said.

The under secretary testified during a House Financial Service Committee hearing held to review findings of the commission that investigated the September 11, 2001, attacks against the United States.

Following is the text of his testimony as submitted to the committee:

Chairman Oxley, Vice-Chairman Kelly, and distinguished Members of the House Financial Services Committee, thank you for inviting me to testify today about the Treasury Department's pivotal role in the international war against terrorist financing and financial crime and the legislative changes you are considering to enhance our government's efforts. My testimony today builds upon my testimony before you on August 23, 2004. I welcome the opportunity to continue this important dialogue as we work together to fortify our capabilities to protect the U.S. and international financial system against abuse by terrorist financiers, money launderers, and other criminals.

We have been successful in making it costlier and more difficult for al Qaeda and like-minded terrorist groups to raise and move money around the world. The terrorists, however, have and will continue to adapt to our efforts. Congress' actions to implement key elements of the Commission's recommendations and to review other necessary legislative changes are a testament to our country's commitment and ability to adapt to the changing landscape of the threats we face. This continued work builds off of this Committee and Congress' important efforts after September 11th to enact necessary laws under the USA PATRIOT Act ("Patriot Act"). The Patriot Act has been a tremendous boon to America's efforts to detect and prevent terrorist attacks, and the Secretary and I echo the President's call for Congress to ensure that its tools remain available to those working to combat terrorism.

One of the primary lessons of September 11th is that we must use all elements of national power to attack the menace of terrorism and the threats posed to our financial system by those who would corrupt and abuse our systems. The U.S. government's success to date in attacking the financial flows of terror stems in large part from the important inter-agency and global cooperation we have been able to forge over the past three years. The Treasury

Department has been a critical player in these efforts given our responsibility to safeguard the integrity of the U.S. and international financial systems from abuse by terrorists, rogue states, money launderers, and all financial criminals.

The Secretary and the President created the Office of Terrorism and Financial Intelligence (TFI) in order to harness the broad scope of Treasury's authorities to combat supporters of terrorism and perpetrators of other financial crimes. TFI's responsibilities include the following: implementing and overseeing domestic anti-money laundering regulation; taking preventative administrative actions against terrorist financiers and support networks; enforcing regulations and laws related to financial crimes and economic sanctions; collecting, analyzing, and sharing financial information with the law enforcement community and the private sector; helping to set international standards that drive anti-money laundering and counter-terrorist financing compliance around the world; and building global capacity along with our inter-agency partners via targeted training of the formal and private sector. Executing these tasks are analysts and compliance officers at the Office of Foreign Assets Control (OFAC) and the Financial Crimes Enforcement Network (FinCEN), policymakers in the Executive Office for Terrorist Financing and Financial Crimes and the Office of International Affairs, as well as enforcement agents and analysts from the Internal Revenue Service and the Executive Office of Asset Forfeiture.

Refining the Use of Financial Information to Address Terrorist Financing Risks

The efficient collection, analysis, and sharing of financial information is critical in tracking money trails of any kind. Much of this information is obtained through laws promoting financial transparency like the Bank Secrecy Act, administered by Treasury's Financial Crimes Enforcement Network (FinCEN), as well as through the compliance programs administered by the Office of Foreign Assets Control (OFAC).

As this Committee knows well, one critically important tool against terrorist financing was provided by Section 314 of the Patriot Act, which mandates the sharing of information with and among the financial sector - that is, both vertically (between the government and the industry) and horizontally (providing a safe harbor that allows industry members to share with each other). Treasury has implemented this section by creating a "pointer" system for law enforcement. This system gives law enforcement, in the right cases, the ability to work with FinCEN to transmit names of persons of interest to the financial sector to

determine whether those institutions have any relevant transaction or account information. The industry reports back only when it has information, and law enforcement then follows up via appropriate process with the institution. The system implemented by FinCEN has worked and it has been a valuable tool for law enforcement, but we must do more.

We need to enhance our technologies and integrate all available information to help identify anomalous patterns of financial activity and uncover areas of heightened risk in financial sectors. This is in part why we have moved to improve FinCEN's technological and analytical capabilities and invested in the BSA Direct project. The support of this Committee to help FinCEN in its administration of the Bank Secrecy Act -- and most importantly, in its use of the information the Treasury has available to it -- continues to be of enormous assistance in sharpening these capabilities. In addition, this Committee's support for the creation of the new Office of Intelligence and Analysis at the Treasury Department will further hone our ability to use our information more effectively to detect terrorist financing and prevent such activities. This office will oversee intelligence functions at the Treasury Department and make sure that we are integrating all relevant information in the Department, including BSA data from FinCEN, OFAC targeting analysis and sanctions enforcement data, and intelligence flowing into the Department from the intelligence community.

As we review our current anti-money laundering and counter-terrorist financing regime, a key question is whether the systems we have implemented to ensure financial transparency, most of which were aimed at money laundering, are up to the task of tracking and disrupting terrorist financing. Although terrorist financing and money laundering share many similarities, these two financial evils also have their differences. With money laundering, investigators look through a telescope trying to detect the movement of large amounts of cash. Unlike money laundering, the identification and tracking of terrorist financing requires investigators to use a microscope in order to follow the movement of relatively small amounts of often "clean" money supporting an evil purpose.

Because terrorist financing transactions may bear no inherent suspicious or identifying trademarks, it is particularly important that we share more information with the financial sector, so as to allow it to recognize accounts and transactions of interest. This will be especially useful as we expand the reach of our regulations to new segments of the financial sector. This will not be an easy task, however. Much of the information relevant to terrorist financing is classified. Moreover, law enforcement is

correctly reticent about sharing information that could compromise an investigation. We also need to be acutely sensitive to the privacy and reputational interests of our citizens and ensure that appropriate controls are in place to safeguard information. The Bank Secrecy Act Advisory Group - the primary body mediating between the government and the financial sector - will be studying this important issue and considering ways to appropriately expand the flow of information-sharing in both directions both to and from the private sector.

Improving Bank Secrecy Act Compliance

The expansion of our anti-money laundering system to new sectors has played a critical role in insulating our financial system against the movement of tainted capital from within and abroad. The Patriot Act provided us with numerous mechanisms to assist in this effort, such as those found in Sections 313 and 319. Both sections are aimed at preventing money laundering and terrorist financing through correspondent accounts maintained by U.S. banks and securities brokers on behalf of foreign banks. Specifically, Section 313 expressly prohibits shell banks from participating in the U.S. financial system and insists upon strict record-keeping regarding the ownership of each non-U.S. bank that maintains a correspondent account with a U.S. institution. Section 319 allows the U.S. to seize criminal assets through inter-bank accounts when foreign bank secrecy laws prevent law enforcement cooperation.

In addition, the application of Section 326 requirements to ensure that proper customer identification and due diligence requirements are implemented by the financial sector is important in ensuring proper entry into the financial system. Mr. Chairman, your leadership and that of others to ensure that the Treasury Department is not precluded from enforcing these regulations will prove important as we seek to increase the level of diligence in the financial community as well as access to the formal financial system.

A critical element in the expansion of the regulatory regime is ensuring that banks and other financial institutions understand and are complying with their BSA obligations. To that end, Treasury's FinCEN has restructured itself to more effectively oversee Bank Secrecy Act compliance and has been working diligently with the functional banking regulators to ensure anti-money laundering and counter-terrorist financing compliance. These efforts are not limited to the Bank Secrecy Act; indeed, we are working closely with the regulators and the financial community to ensure compliance with OFAC-related sanctions programs as well.

In this regard, we welcome the Committee's cooperation in the Treasury Department's enhanced compliance efforts, and in particular the leadership of Chairwoman Kelly and the work of the Subcommittee on Oversight and Investigations. The Committee's support for FinCEN's central role in ensuring consistent and vigorous Bank Secrecy-related oversight, to include the creation and manning of FinCEN's new compliance office, is both welcome and necessary. We recognize that there's much more work to be done in this area and we look forward to working with this committee to fashion a sensible way to extend our regulatory reach to the various industries specified in the Act.

The National Money Laundering Strategy has served as an important policy centerpiece in setting the strategic framework for the U.S. government's efforts. The 2003 National Money Laundering Strategy, published last fall, is a good example of this as it provides a framework for the U.S. Government's ongoing commitment to attack money laundering and terrorist financing on all fronts. As this Committee is aware, the 2003 Strategy was the last of the five congressionally mandated strategies. Though the Strategy has been an effective document, we will work with this Committee and the Congress to evaluate the most effective form for the Department to continue reporting on U.S. Government's efforts to secure the financial system against abuse.

Heightened International Engagement

Another key lesson of the terrorist attacks since September 11th is that terrorism is a global problem that affects all jurisdictions and is a phenomenon that must be dealt with on an international level. This is acutely apparent in the terrorist financing arena because the movement of money in the 21st century knows no borders. We have forged a critical international coalition to share information about suspect networks, freeze and seize terrorist-related assets, arrest or isolate key financial intermediaries and donors, and improve the international safeguards around the financial system.

Treasury is well positioned to deal with both government and private participants in the international financial sector. Treasury officials have traveled abroad extensively to engage our partners in various ministries and central banks, as well as financial professionals in private industry trade associations and institutions, on the subject of terrorist financing. We are in daily contact with foreign financial officials and are engaged in bilateral and multilateral discussions regarding international cooperation and action against terrorist activities and financing. And we are promoting technical assistance and training abroad, in

conjunction with our inter-agency colleagues, to ensure that our partners have the requisite capacity to regulate vulnerable industries, enforce laws, and share financial information.

The U.S. government has engaged in numerous international fora, including the United Nations, G7 [Group of Seven], G8 [Group of Eight], G20 [Group of 20], the Financial Action Task Force (FATF), the Egmont Group, [of financial intelligence units] and the international financial institutions to combat terrorist financing in a global, systematic way. We have worked with these international bodies and regional organizations such as APEC [Asia-Pacific Economic Cooperation forum], the OAS [Organization of American States], the OSCE [Organization for Security and Cooperation in Europe], and the Manila Framework Group to further coordinate international efforts to stop the financing of terrorism and to ensure that countries take concrete actions. In general, the United States has led the initiative to make the battle against terrorist financing a priority for the world, through bilateral and multilateral engagements as well as constant diplomatic pressure.

In this respect, the United States is leading the global effort to increase information sharing as well as financial transparency. FinCEN's leadership in the Egmont Group has spurred a rapid expansion of financial intelligence units (FIUs), with 94 such FIUs now operating around the world. This network will only grow in importance as the FIUs continue to develop projects and conduits to detect and prevent terrorist financing and financial crimes.

In addition, Treasury will continue to spearhead efforts with international bodies like the Financial Action Task Force (FATF) to promote balanced regulatory regimes that provide for financial transparency. Thanks to these efforts, scores of countries are now called upon to: regulate informal banking systems like hawalas; include originator information on cross-border wire transfers; freeze and seize terrorist-related funds; overtly criminalize terrorist financing; and increase vigilance over the non-profit sector.

These FATF principles and practices are being promulgated further by the International Monetary Fund and the World Bank, which have adopted the FATF Recommendations as part of their anti-money laundering principles used in assessing jurisdictions. In addition, the forthcoming creation of FATF-style regional bodies in Central Asia and the Middle East/North Africa will hold a range of new countries to the standards of the international community. TFI will continue to press aggressively on these and other international efforts - such as building counter-terrorism

financing capacity worldwide - to counter the ever-evolving threats of terrorist financing and money laundering.

A powerful tool in our international efforts is Section 311 of the Patriot Act. In this Section, Congress provided the Secretary of the Treasury with the authority to impose certain restrictions on financial institutions or jurisdictions adjudged "primary money laundering concern[s]," or prevent them from accessing the U.S. financial system altogether. This past May, the Treasury Department designated the Commercial Bank of Syria (CBS) under Section 311, based on concerns relating to financial transparency and problems we observed with that institution, including terrorist financing. The Bank will either take effective steps to address our concerns, or we will cut it off from our financial system. In August, the Treasury Department designated two more foreign banks -- First Merchant Bank of the "Turkish Republic of Northern Cyprus" ("TRNC") and Infobank of Belarus -- as "primary money laundering concern[s]," pursuant to Section 311. Actions of this type spur jurisdictions and institutions to introduce reforms and create greater financial transparency. They also protect the integrity of our financial system. We will continue to aggressively apply Section 311 against rogue jurisdictions and institutions when we have reason to believe that our financial system is being threatened by terrorist financing or other criminal networks.

Emerging Issues of Concern

Our successes breed new challenges. As the formal and informal financial sectors become increasingly inhospitable to financiers of terrorism, we have witnessed an increasing reliance by al Qaida and terrorist groups on cash couriers. The movement of money via cash couriers is now one of the principle methods that terrorists use to move funds.

Treasury is working closely with the FATF and governments around the world to formulate guidance for international jurisdictions in identifying and interdicting the use of cash couriers in financing terrorism. Additionally, Treasury has proposed new guidance for customs and border security officials to assist them in targeting couriers that may be transporting cash to terrorist networks. In so doing, we have proactively engaged the broader law enforcement community, specifically DHS/ICE [Department of Homeland Security/Immigration and Customs Enforcement], to tap their expertise on cash smuggling.

In addition, we are monitoring increased transnational financial criminal activity of concern to us -- including counterfeiting of U.S. banknotes. The U.S. Secret Service has recently announced an ongoing investigation of a

family of counterfeit notes, emanating from North Korea, that are produced by means of complex and expensive printing methods. As noted by the Secret Service, the sophisticated techniques utilized in producing this family of counterfeit U.S. banknotes is evidence of a well-funded, ongoing criminal enterprise, with a scientific and technical component. The Treasury Department is working closely with the Secret Service, along with the State and Justice Departments, to ensure that the dollar remains a safe, secure store of value. We welcome this Committee's actions to ensure that the U.S. Government has strong enforcement tools to combat the threat of counterfeiters and their networks.

Conclusion

The tools provided by Congress and contemplated by this Committee will greatly bolster Treasury's efforts to combat terrorist financing and other financial crime. I want to thank this Committee for the proposals it has put forth today to implement the recommendations of the 9/11 Commission and to strengthen the essential tools that Treasury utilizes each day. Treasury looks forward to the opportunity to working with you to advance these proposals to enable us to become stronger, more perceptive, and more nimble in countering the evolving threats to the financial sector and our nation.

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President Bush, Japan's Koizumi Agree to Speed U.S. Force Structure Review

(Leaders affirm commitments on Iraq and N. Korea, discuss beef ban)

By Susan Krause, Washington File Staff Writer

President Bush and Japanese Prime Minister Junichiro Koizumi have agreed to accelerate talks on the structure of U.S. military forces in Japan, according to a senior U.S. government official.

The two leaders met September 21 on the sidelines of the 59th session of the U.N. General Assembly in New York.

The official, who briefed reporters after the meeting, said: "The U.S. and Japan have been exchanging ideas on how to modernize our alliance and our presence. The prime minister agreed that we need to accelerate these talks, both at the strategic level, but also among experts on the two sides."

Both sides hope to strengthen the deterrence capability and effectiveness of the U.S. military presence while addressing

concerns and sensitivities of Japanese communities, the official told reporters. Koizumi, the official said, raised the issue following the crash of a U.S. Marine CH-53D Sea Stallion helicopter in Okinawa in August.

"The president understands the sensitivities and sees this global posture review in our talks with Japan as a way to begin making progress on that," the official said.

Bush and Koizumi did not commit to a timeline for specific action, according to the official, who characterized the discussion as "forward-leaning." He said the two leaders would ask experts in their respective governments to "start hammering out different ideas" for proposals.

"That may be providing some consolidation of bases, it could be a change in numbers, but that's not yet determined," the official said. The United States has 47,000 troops in Japan.

During the 35-minute meeting, President Bush and Prime Minister Koizumi covered a wide range of other topics. The two leaders reaffirmed their commitment to democratization and rebuilding in Iraq and Afghanistan, the senior official said. They also briefly discussed the North Korean nuclear weapons program, agreeing to continue pressing for eliminating nuclear programs from the Korean peninsula through the regional forum known as the Six-Party Talks, whose participants include the United States, China, Russia, Japan, South Korea and North Korea.

Both sides agreed to negotiate an end to a Japanese ban on imports of U.S. beef as soon as possible, the senior official said. The ban was imposed following the discovery in December 2003 of a case of bovine spongiform encephalopathy (BSE), also known as mad cow disease, in a U.S. herd. Technical experts from both countries began meeting to discuss the issue in May, and both sides had hoped to resolve the issue by the end of summer.

"Our view is we're getting down to the point where it's time to follow through on the expert exchanges and make some decisions," the official said. "But there wasn't a decision today. They're going to keep working at it ... to start looking at what else we would have to do to resume beef exports. We don't think it's much."

The full text of the background briefing can be found at:

<http://www.whitehouse.gov/news/releases/2004/09/20040921-18.html>

*EPF307 09/22/2004

G7, China Finance Ministers to Meet on Currency Exchange Regime

(Representatives also to discuss Iraq debt forgiveness, Treasury's Taylor says)

By Andrzej Zwanecki, Washington File Staff Writer

Washington -- High-level financial officials from the seven most industrialized countries will meet for the first time as a group with their Chinese counterparts to discuss reform of China's currency exchange regime and other issues, a U.S. Treasury Department official says.

Even though finance ministers and central bank governors from the Group of Seven (G7) countries have held bilateral meetings with China's finance minister and central bank director, the G7 officials as a group and their Chinese counterparts see a meeting at this level as the best way to move forward on the issue of a flexible exchange rate in China, Under Secretary of the Treasury John Taylor told reporters September 22.

The G7 comprises Canada, Germany, France, Italy, Japan, the United Kingdom and the United States.

The first meeting between G7 and Chinese senior finance officials took place in September 2003 in Dubai.

Asked whether elevating the meeting to the ministerial level is the first step toward inviting China to the G7, Taylor said that the special October 1 session on the sidelines of the G7 regular meeting the same day is a "natural" result of China's growth and increasing influence in the world economy. He said that a next step in G7-China relations will depend on how this meeting goes.

"We have to wait and see what the evolution is of this kind of group," he said.

In September 2003, the G7 finance ministers issued a general call for more flexibility in exchange rates in major countries or economic areas to "promote smooth and widespread adjustments in the international financial system."

Since then, U.S. Treasury Secretary John Snow has repeatedly said that a pegged exchange rate is not appropriate for major economies such as China's and called on the leadership of that country to accelerate its efforts to move to a flexible exchange rate.

China has for almost a decade pegged its currency -- the renminbi, or yuan -- to the U.S. dollar at a fixed rate.

Generally considered undervalued, the renminbi has helped China to boost its exports and fueled China's trade surpluses with its major trading partners. China's exchange rate policy has grown into a hot political issue and a major source of concern for U.S. policymakers as the U.S. trade deficit with that country hits record levels.

Taylor said China has moved toward a flexible exchange rate by taking steps such as opening its banking sector to foreign banks and relaxing some controls on capital movement. But he said that the timing of the actual shift to a new exchange rate regime depends on how quickly the country can put all the necessary elements together.

"We are very positive about they are moving to and intend to have a flexible exchange rate," he said.

Taylor said that G7 officials during their regular meeting will discuss structural changes in their respective countries, efforts to forgive or reschedule most of Iraq's external debt and other issues. He said that international talks to forgive that debt are expected to be completed by the end of 2004.

"Everything is on track to fulfill that commitment," he said.

Taylor said that some countries have already formally committed to eliminate the "vast majority" of Iraq's debt, which is estimated at about \$120 billion.

President Bush during the June Group of Eight (G8) summit on Sea Island, Georgia, called for reducing Iraq's debt by 80 to 90 percent. The International Monetary Fund (IMF) has provided Iraq's creditors with an analysis of Iraq's debt sustainability, including its economic growth prospects and reconstruction requirements, according to news reports citing a U.S. official.

Taylor also reviewed the agenda of the IMF and World Bank October 2-3 meetings. He said that, before the meetings, Secretary Snow will speak on the strategic review of the two institutions, participate in an October 1 meeting of G8 and Broader Middle East and North Africa finance ministers, and meet with finance ministers from the Andean and some other countries.

The G8 comprises the G7 countries plus Russia.

*EPF308 09/22/2004

Text: Asia's Environmental Challenges Demand Robust Action, Leach Says

(Transnational environmental degradation a national security concern)

The scope of national security has expanded to include not only the traditional concerns of protecting American interests from direct threats, but also the new transnational challenges of a globalized world, such as disease, environmental degradation, and population migration, according to Representative James A. Leach, chairman of the Subcommittee on Asia and the Pacific of the House International Relations Committee.

In an opening statement at a September 22 hearing, Leach, a Republican from Iowa, called attention to environmental degradation in the Asia-Pacific region and its implications for the United States and the world. He noted that rapid population and economic growth are causing environmental problems in the region, including severe air and water pollution, declining biodiversity, deforestation, and destruction of coral reefs.

The region is also projected to become the leading producer of greenhouse gases by 2020, Leach said.

"By almost any objective measure, it would appear the scale of the environmental challenges in Asia demands a more robust response from countries within the region as well as the international community," Leach said.

Citing the United States' internationalist tradition and strong leadership in areas of transnational concern, Leach said the subcommittee would seek information on the best U.S. policy approaches to strengthen environmental protection in the Asia-Pacific region.

Following is the full text of Leach's opening statement:

On behalf of the Subcommittee, I would like to welcome our distinguished panel of witnesses. We appreciate your participation and look forward to hearing your views. At the outset, I would like to note my appreciation to our distinguished Ranking Member, and most particularly Earl Blumenauer, for their strong interest in this issue and the helpful recommendations for several of our expert witnesses this afternoon.

As we all understand, discussions about international affairs today tend to revolve around far-reaching questions about the threat of terrorism, the use of force, weapons of

mass destruction, the nature of sovereignty and the right to intervene.

Yet it is also important to understand that the scope of national security has expanded to include not only the traditional concerns of protecting and promoting American well-being from direct threats abroad, but the new challenges of a globalized world, including the threat of diseases like HIV/AIDS, sustainable development and hunger, environmental degradation, population growth and migration, as well as economic competitiveness.

Today's hearing focuses on the environmental challenges in Asia and the Pacific and their implications, not only for the region, but the United States and larger world community.

By way of background, Asia is the most densely populated region in the world, with more than half of the earth's population living on less than a third of the world's arable land area. Despite declining fertility, the region's population is projected to grow by another 50 percent by 2050. At the same time, Asia's economic growth rates are faster than in any other in the world. According to many experts, these changes are causing a host of severe environmental problems which are likely to worsen if credible policy steps are not taken. Asia's rivers and cities, for example, are among the most polluted in the world, and the region is projected to become the leading producer of greenhouse gases by 2020 -- contributing to the "greenhouse effect" of rising surface temperatures on earth.

Asia is also the most biodiverse region on earth. As much as 80 percent of the world's endangered species, and two-thirds of the world's coral reefs, are found in the vast reaches of the Asian landscape. Tragically, however, the region has already lost over 90 percent of its frontier forests; countries in the region have lost 70-90 percent of their original wildlife habitats; and forest loss has accelerated.

America's internationalist tradition has historically included strong leadership to address transnational concerns like environmental protection, including in the Asia-Pacific region. Currently, the principal U.S. foreign assistance program addressing environmental problems in Asia is the United States-Asia Environmental Partnership (US-AEP), which encompasses East Asia and South Asia. The United States also promotes environmentally sustainable growth through its participation in the World Bank-managed Global Environmental Fund (GEF) and through its participation in the multilateral development banks.

Perspective is often difficult to apply to issues of the day, including the one we are considering this afternoon. For

example, although America's environmental movement dates back to the 19th century, it is arguably only in the last thirty-five years or so -- symbolized perhaps by the establishment of the Environmental Protection Agency and the first celebration of Earth Day -- that environmentalism became mainstreamed into American society. Likewise, it should also be self-evident that a multitude of environmental challenges here at home remain to be fully addressed.

Having said that, however, by almost any objective measure it would appear the scale of the environmental challenges in Asia demands a more robust response from countries within the region as well as the international community.

In this regard, the Subcommittee is interested in assessing what policy approaches within the region are most likely to strengthen environmental protection? What problems demand urgent attention? Finally, how can the U.S. and the others most effectively assist countries and people in the region to advance a common-sense environmental agenda?

Fortunately, we have with us an outstanding panel of witnesses to help us wade through this policy thicket. We look forward to your testimony and the discussion to follow.

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